Food & Beverage

Reinforcing leading market position to achieve healthy growth

Mr Koh Poh Tiong
CEO

Business Overview

Against the backdrop of a challenging year, I am pleased to report significantly improved results by the Food & Beverage (F&B) business, with profit growth in almost all markets, across all divisions. Revenue leapt by 17% to S$3 billion and PBIT by 16% to S$291 million, marking our eighth consecutive year of record revenue and profits. This set of strong results was achieved despite gestation losses incurred by new start-up ventures and translation losses.

This performance was especially commendable in light of the numerous challenges facing the industry in the past year, including escalating fuel, commodity and raw material prices, a slowing global economy, rising inflation and dampened consumer confidence.

Our results affirm our long-term strategy of expanding into regional markets, investing in brands at all times, driving product innovations and cost management. Our Beer, backed by a solid base comprising a diversified network of 31 operating breweries in 13 countries, with over 40 beer brands catering to every drinking occasion, recorded S$186 million in PBIT; while our Soft Drinks, Dairies and Glass Containers, underpinned by higher festive sales and favourable product mix, recorded PBIT of S$53 million, S$36 million and S$17 million, respectively.

Aggressive and persistent marketing efforts enabled us to mitigate softening market conditions and weak consumer sentiment and strengthen our market position. Strong branding of soft drinks and dairies products under the "*Pure Enjoyment. Pure Goodness*" banner was the key to maximising success of new products and maintaining brand awareness of existing products. Following the successful launches of the new F&B corporate identity in Singapore, Thailand and Vietnam last year, we proceeded to roll out the new F&B identity, to unify Malaysia's soft drinks and dairies brands. All marketing activities and product portfolio in Singapore, Malaysia, Thailand, Vietnam are shaped around the core theme of this corporate F&B brand, enabling consumers in the region to identify with the Group's brands and range of products. In the beer business, we successfully launched a new through-the-line campaign, *"Enjoy Winning"*, for *Tiger* beer, to leverage on our heritage of winning.

Revenue **S$2,966M**

Increased by 17%

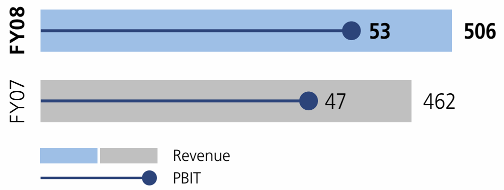
PBIT **S$291M**

Increased by 16%

F&N continued to be the Number 1 soft drinks company in Malaysia, with commanding category leadership in Malaysia's isotonic and carbonated soft drinks segments and a consolidated Number 2 position in the Asian drinks category.

Soft Drinks

Revenue and PBIT (S$ million)



Soft Drinks

Strengthening leadership position in a competitive marketplace

Soft Drinks continued to perform strongly. PBIT rose 13% to S$53 million on the back of a 10% growth in revenue. PBIT margin improved from 10.1% last year to 10.4% this year.

When the Malaysian government announced a hike in fuel prices and electricity tariffs, and in order to avoid dampening consumer sentiment, we made a deliberate decision to maintain the prices of our beverage products, despite higher raw material and packaging costs. To boost sales, we continued to focus on developing and providing first-class sales and efficient distribution network, and training employees to be effective brand ambassadors.

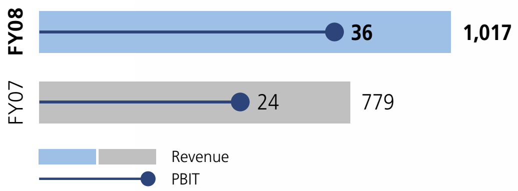
Consequently, F&N continued to be the Number 1 soft drinks company in Malaysia, with commanding category leadership in Malaysia's isotonic and carbonated soft drinks categories and a consolidated Number 2 position in the Asian drinks category.

100PLUS in Malaysia logged in a staggering market share of 90% in the isotonic segment, strengthened by extensive outreach programmes and the *100PLUS* "Live Active Campaign" to promote healthy lifestyle among Malaysians. In recognition of consumers' continued trust in the brand's consistent offerings, *100PLUS* was awarded the Reader's Digest *"Gold Trusted Brand Award"* for the fifth year running and the *"Gold Award"* in the Malaysia Brand Equity Awards 2008 in the FMCG category for turnover above RM500 million. *100PLUS* continues to be the single largest selling brand within the combined category of soft drinks and isotonic in Malaysia for three years running.

Our carbonated soft drinks in Malaysia enjoyed over 60% market share, largely dominated by the F&N and, our partner, *Coca-Cola* brands. F&N's brands continued to be the refreshment of choice, especially during major festive occasions. As an official sponsor of the Beijing 2008 Olympic Games, *Coca-Cola* enjoyed significant presence and visibility from this illustrious sporting event.

Likewise in our non-carbonated portfolio, the *Seasons* brand held strong as the Number 2 player in the Asian drinks category in Malaysia. It is also the fastest growing brand in the category. Its promotion of healthier alternatives strikes a chord with the global trend for a more wholesome lifestyle.

Dairies
Revenue and PBIT (S$ million)



Dairies

Wholesome goodness for the entire family

The Dairies division performed commendably, with the Malaysian operations achieving record growth as revenue surpassed RM1 billion for the first time. Overall, the Group Dairies volume grew strongly while revenue registered an impressive 31% growth. PBIT surged to S$36 million on the back of a robust volume growth due to the consolidation of our Malaysian tinned milk business and entry to Thailand's sizeable dairy market, following the acquisition of Nestle's tinned milk business less than two years ago. In addition, operational synergies, such as reduction of trade offers and logistics costs realised from this acquisition, helped to improve profits. The dairy business in Singapore continued to perform strongly, retaining its leading market positions particularly in the pasteurised milk, soy and juice segments. Consequently, PBIT margin improved by 14% to 3.5%.

Dairies division took a quantum leap last year with the acquisition of Nestle's Malaysia and Thailand tinned milk business, setting in motion our regionalisation plan. Besides solidifying our leadership position in the tinned milk business in Malaysia, this strategic investment provided us with immediate access to the Thai market and positioned us as one of the top 5 non-alcoholic food & beverage companies in the country and the largest tinned milk producer in South-East Asia. The acquisition also enabled us to gain entry into the largely untapped markets of Indochina which has a total consumer base of over 220 million people (including Thailand).

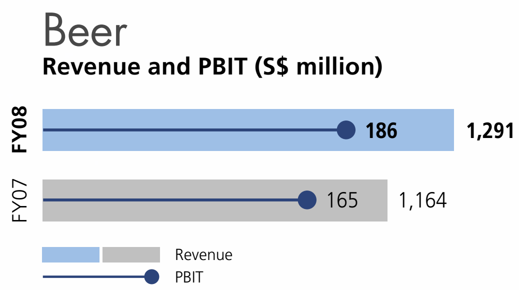
To further growth, we have invested in the construction of two new dairy plants in Pulau Indah, Malaysia and Rojana, Thailand. Ultimately, products sold in Malaysia, Indochina and Thailand will be manufactured and supplied from these world-class plants. Both production facilities are targeted to commence production within the next two years. Upon relocation, the prime Petaling Jaya site in Malaysia, where the existing dairy plant sits, will be redeveloped.

Through successful marketing strategies, we maintained our strong leadership positions in key dairy segments in Singapore and Malaysia.

Our growth and branding strategies were integral contributors to the sterling performance. Branding activities were focused on reinforcing F&N's close association with daily life and wholesome goodness for the entire family. Campaigns fostering a sense of familiarity and fondness for the brand were carried out throughout the year. Through successful marketing strategies, we maintained our strong leadership positions in key dairy segments in Singapore and Malaysia, namely, tinned milk, pasteurised milk, pasteurised juices, Asian drinks, among others. Our sweetened condensed milk further strengthened its strong leadership position in Malaysia with brands like *F&N, TEA POT* and *Gold Coin*, while in Singapore, our Asian drinks which include *F&N Nutritea* and *F&N Nutrisoy* enjoyed strong support from local consumers to maintain its leadership in this category.

Taste innovation and relevance to consumers are major factors when introducing new products. In line with the trend towards healthy living, *Fruit Tree Fresh* introduced four exotic flavours under the new *No Sugar Added* range; *Nutritea* and *Nutrisoy* added new variants, *Nutritea Barley* and *Nutrisoy Black Sesame Soya Milk; Magnolia* introduced a nutritious food drink, *Magnolia Go!*; and *Sunkist* launched a Not From Concentrate premium range, to cater to growing consumer demand for healthier food choices. In addition, a new food range, launched under *F&N aLIVE* brand was unveiled. *F&N aLIVE* Wholegrain Cereals, a full product portfolio of nutritional snack bars and whole grain cereals, was developed jointly with Sanitarium, the leading health food company and brand in Australia and New Zealand. Made mainly from wholegrain and 98% fat free, cholesterol and trans-fat free, these products are thoughtfully created to complement the busy and active lifestyles of young, health-conscious consumers.

Through APB, we manage a portfolio of over 40 beer brands and brand variants in the Asia Pacific region. During the year, we remained focused on growing our brands and market shares through market and product innovations.



Beer

Growing our regional footprint

Breweries delivered another set of strong results for the year, supported by volume and profit growth in almost all markets. Revenue jumped 11% to S$1.3 billion, while PBIT rose 12% to S$186 million, propelled by higher beer sales in almost all markets despite translation losses and gestation losses incurred by start-up ventures in India and Laos. Excluding these translation losses and gestation losses, PBIT grew 20% to S$203 million.

Through Asia Pacific Breweries (APB), we manage a portfolio of over 40 beer brands and brand variants in the Asia Pacific region. During the year, we remained focused on growing our brands and market shares through market and product innovations.

In Singapore, we continued to perform strongly during the year. Following a series of effective marketing strategies, including the broadcast sponsorship of the Barclays Premier League and support for the Barclay's Singapore Open, our beer volumes (including export) grew 6% on higher volumes of *Tiger*. Higher investments in marketing also led to the strengthening of *Tiger*'s brand equity. The new *"Enjoy Winning"* campaign was implemented, amplifying the contemporary and refreshed appeal of the *Tiger* brand in the minds of today's discerning drinkers.

Indochina, the largest contributor to APB's profit, continued to surge ahead at full throttle. Revenue jumped 17% on a 14% volume expansion and higher selling prices in Vietnam and Cambodia. PBIT grew 35% organically, excluding one-off item, gestation losses from Laos and translation losses. *Tiger* and *Heineken* continued to lead the pack of premium beer brands in Vietnam's growing beer market while *Anchor* continued to garner a good market share in the "bia hoi", or fresh beer segment, the fastest-growing category in the Vietnamese beer market. The year also saw our northern Vietnam brewery expand its production capacity by more than 50% to 460,000 hectolitres, to cater to the strong domestic and export demand for our beers. Completing our presence in Indochina, this year, we also commissioned a €23 million (S$49 million) greenfield brewery in Vientiane, Laos.

Papua New Guinea's PBIT leapt substantially by 35%, owing to a 10% rise in sales volume and improved margins from higher prices. During the year, a new mid-strength lager (3.5% alcohol by volume) called *SP Gold* and a range of locally produced and imported alcoholic beverages were introduced to widen the range of our product offerings. APB also saw improved volume in New Zealand, with *Tiger, Heineken, Monteith's* and *Tui* continuing to enjoy popularity despite intense competition and the flat beer market.

Food & Beverage

Our Malaysian brewery business registered a healthy 7% PBIT growth. Sales volume in Thailand grew 1% amid intense competition and continued regulatory restrictions on advertising and consumption. PBIT, however, dipped 5% due mainly to higher operating costs.

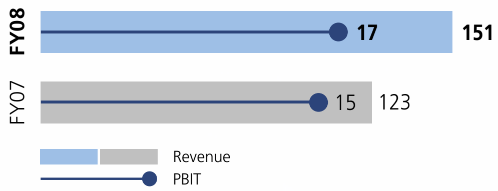
China, the largest beer market in the world in terms of volume, continued to be a challenging market with razor thin margins. Volume fell 16% due mainly to intense competition and unfavourable weather conditions. Exercising prudence, Heineken-APB (China) Pte Ltd, a joint venture company of APB, undertook a write-down on its investment in Kingway Brewery Holdings, in view of its recent performance and the uncertain economic outlook. As a result of all these factors, the China business incurred losses of S$11.3 million.

After just 15 months of operation, Mongolia registered a maiden PBIT of S$0.7 million, driven by a two-fold increase in volume. It now joins the ranks of Singapore, Malaysia, Thailand, Vietnam, Cambodia China, New Zealand, India and Laos to brew *Tiger*.

Volumes in India and Sri Lanka posted a 67% growth. However, investments in brand launches in Aurangabad, Maharashtra and gestation loss from the greenfield brewery in Hyderabad, Andhra Pradesh which started commercial operations in January 2008, have resulted in a loss of S$12 million for the year under review. During the year, locally brewed *Tiger* was launched in India; and it has since been making headway into its key cities.

The breadth and depth of our market positions, across different geographies and categories, provide added confidence to shareholders.

Glass Containers
Revenue and PBIT (S$ million)



Glass Containers

Operational efficiency for maximum results

The strong performance of the Glass Containers division can be partially attributed to higher volume from the new state-of-the-art US$43 million (S$64 million) plant in Thailand, and increased operational efficiency in China resulting from the closure of an old plant, the investment in a second furnace and the rationalisation of manufacturing facilities. In China, Sichuan Malaya Glass strengthened its position by forging strong supply relationships with multinational customers such as Heineken and Anheuser Busch. However, the Sichuan earthquake in May 2008, coupled with higher raw materials costs, has resulted in lower profits for the year.

In Malaysia, the rationalisation of Malaya Glass Products Sdn Bhd and Kuala Lumpur Glass Manufacturers Company Sdn Bhd's operations helped to streamline costs and improve the long-term profitability of the business in the face of higher operational costs. As part of a restructuring exercise, work on an additional furnace is currently underway at Malaya Glass, which will commence commercial run by the start of the next financial year. An existing furnace is also being upgraded to increase its capacity.

The volume and revenue of Malaya-Vietnam Glass Limited have been limited by capacity constraints. A market leader in Vietnam, the company maintained its premium position to sustain its profitability in a double digit inflation economy. A feasibility study is being conducted to consider further investments in the country.

Looking Ahead to FY2009

Going forward, we remain focused on our core businesses in Soft Drinks, Dairies and Beer, developing a strong portfolio of brands to suit local consumer demands within a diversified base of geographical markets. Although the economic climate in the coming year poses challenges for the F&B businesses, barring any unforeseen developments, I am optimistic that our strong financial position, strategies of maintaining operational efficiencies and bolstering market leadership through consistent branding efforts, which have proven to be a winning formula in the past years, should stand us in a good stead.

The breadth and depth of our market positions, across different geographies and categories, should also provide added confidence to shareholders in our ability to weather the current economic slowdown. Together, Soft Drinks and Dairies businesses, backed by strong brands like *F&N, 100PLUS, Magnolia, Farmhouse, Nutrisoy*, among others, in Singapore, Malaysia and Thailand; and beer, of which we have a wide footprint of 31 operating breweries in 13 countries in the Asia Pacific and supported by strong portfolio of brands, spearheaded by *Tiger* and *Heineken*, should enable us to capture growth opportunities and further strengthen our presence and performance in the region.

In addition, we will also proactively explore capacity expansion and continue to drive per capita consumption with greater product innovation and faster speed to market. Such initiatives will help us deepen our presence in markets where we are strong, particularly in soft drinks and dairies in Malaysia.

Geographically, F&N has been rapidly growing our non-beer revenue in Thailand and we hope to be able to make further in-roads into one of South-East Asia's largest markets for Soft Drinks and Dairies.